

JUSTIFICATION AND EXPLANATION

1. Purpose. The purpose of the proposed legislation is to provide for the adjustment of annuities on the basis of monthly Consumer Price Index indicators and to accelerate the cost-of-living adjustment of annuities under the Central Intelligence Agency Retirement Act of 1964 for certain employees.

2. Background Statement. The Central Intelligence Agency Retirement Act of 1964 authorizes automatic cost-of-living adjustments on the basis of Consumer Price Index rises by an annual average of 3 per centum or more for a calendar year and establishes 1 April 1966 as the earliest effective date for the first such annuity increase. The automatic adjustment principle was incorporated into the Civil Service Retirement Act in 1962. The Civil Service Retirement Act automatic adjustment provision was incorporated into the Central Intelligence Agency Retirement Act when it was passed in 1964. The Senate Report supporting the bill to provide for the Central Intelligence Agency Retirement System states that the Senate Committee "...adopted new language authorizing increases in the retired pay of annuitants based upon the identical system now in effect for retired Civil Service employees providing for periodic increases in retired pay based on minimum 3 per centum advances in the Consumer Price Index." (88th Congress, Second Session,

Senate Report 1589). Similar reference to this cost-of-living feature was made during Senate consideration of the amended bill which became law. At the time a similar basis for adjustment existed for the benefit of military members of the armed forces.

3. Recent Congressional Consideration. Recently, the 89th Congress, at the request of the Secretary of Defense, amended the cost-of-living provision affecting military retirees. This amendment gears increases to monthly rather than average calendar year Consumer Price Indexes and accelerates the cost-of-living adjustment due on 1 April 1966 to a more current date. This amendment has become law (P.L. 89-132). Similar legislation for the benefit of Civil Service retirees has passed the House of Representatives and has been favorably reported out of the Senate Committee. The Chairman of the Civil Service Commission has stated that he does not object to this proposed change in law. Similar legislation is also being processed for the benefit of foreign service personnel under the Foreign Service Retirement System.

4. Central Intelligence Agency Retirement System. The Central Intelligence Agency Retirement System provides an early retirement program for a limited number of career Central Intelligence Agency employees who are at least 50 years old and have at least 20 years of service. As

contrasted with normal Civil Service annuities, no reduction is made for age and the multiplicand factor against high five average salary is set at a flat 2 per cent rather than 1.5 per cent for the first five years of service, 1.75 per cent for the next five years, and 2 per cent for succeeding years. These features are not unique in the Federal Government and exist under the Civil Service Retirement Act for law enforcement officers and under the Foreign Service System for foreign service personnel. Only those career employees of the Central Intelligence Agency who meet the statutory conditions of eligibility are eligible for annuities under the Central Intelligence Agency Retirement Act. The remaining career Central Intelligence Agency employees are covered by the Civil Service Retirement Act. The statutory conditions for eligibility under the Central Intelligence Agency Retirement Act cover those employees "whose duties are determined by the Director to be (i) in support of Agency activities abroad, hazardous to life or health and (ii) so specialized because of security requirements as to be clearly distinguishable from normal Government employment."

5. Justification. It is felt that the case made for the change to monthly Consumer Price Index indicators and for the acceleration of cost-of-living increase for Civil Service retirees, foreign service, and military personnel applies with equal force to Central Intelligence Agency Retirement

System retirees. The proposed amendment is to assure that the cost-of-living adjustment features of the Central Intelligence Agency Retirement System is in line with Administration policy. While the Central Intelligence Agency Retirement Act contains the identical principles enunciated in the Civil Service Retirement Act and Military retirement system, this principle will be rendered ineffective in practice unless changes in the mechanics of computing cost-of-living increases adopted by the 89th Congress are enacted for Central Intelligence Agency Retirement System retirees.

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1. Purpose. The purpose of the proposed legislation is to maintain consistency between the Central Intelligence Agency Retirement System and the Civil Service Retirement System for the automatic adjustment of annuities on the cost-of-living principle.

2. Background Statement. The Central Intelligence Agency Retirement Act of 1964 authorizes automatic cost-of-living adjustments on the basis of Consumer Price Index rises by an annual average of 3 per centum or more for a calendar year and establishes 1 April 1966 as the earliest effective date for the first such annuity increase. The automatic adjustment principle was incorporated into the Civil Service Retirement Act in 1962. The Civil Service Retirement Act automatic adjustment provision was incorporated into the Central Intelligence Agency Retirement Act when it was passed in 1964. The Senate Report supporting the bill to provide for the Central Intelligence Agency Retirement System states that the Senate Committee "... adopted new language authorizing increases in the retired pay of annuitants based upon the identical system now in effect for retired civil service employees providing for periodic increases in retired pay based on minimum 3 per centum advances in the Consumer Price Index." (88th Congress,

Second Session, Senate Report 1589.) Similar reference to this cost-of-living feature was made by Senator Russell during Senate consideration of the Senate amended bill which became law. At the time a similar basis for adjustment existed for the benefit of military members of the armed forces.

3. Recent Congressional Consideration. Recently, the 89th Congress, at the request of the Secretary of Defense, amended the cost-of-living provision affecting military retirees. This amendment gears increases to monthly rather than average calendar year Consumer Price Indexes and accelerates the cost-of-living adjustment due on 1 April 1966 to a more current date. This amendment has become law (P. L. 89-). Similar legislation for the benefit of civil service retirees has passed the House of Representatives and it is expected that it will be reported out shortly by the Senate Post Office and Civil Service Committee. The Chairman of the Civil Service Commission has stated that he does not object to this proposed change in law.

4. Central Intelligence Agency Retirement System. The Central Intelligence Agency Retirement System provides an early retirement program for a limited number of career Central Intelligence Agency employees who are at least 50 years old and have at least 20 years of service. As contrasted with normal civil service annuities, no reduction is made for age and the multiplicand factor against high five average salary is set at a flat 2 per cent rather than 1.5 per cent for the first five years of service, 1.75 per

cent for the next five years, and 2 per cent for succeeding years. These features are not unique in the Federal Government and exist under the Civil Service Retirement Act for law enforcement officers and under the Foreign Service system for foreign service personnel. Only those career employees of the Central Intelligence Agency who meet the statutory conditions of eligibility are eligible for annuities under the Central Intelligence Agency Retirement Act. The remaining career Central Intelligence Agency employees are covered by the Civil Service Retirement Act. The statutory conditions for eligibility under the Central Intelligence Agency Retirement Act covers those employees "whose duties are determined by the Director to be (i) in support of Agency activities abroad, hazardous to life or health and (ii) so specialized because of security requirements as to be clearly distinguishable from normal Government employment."

5. Impact of Congressional Action on the Central Intelligence Agency Retirement System. If the pending amendment to cost-of-living adjustments under the Civil Service Retirement Act is enacted without equivalent amendment to the Central Intelligence Agency Retirement Act, the following discrepancies will exist:

	<u>Civil Service Retirement Act Retirees*</u>	<u>Central Intelligence Agency Retirement Act Retirees</u>
Cutoff date for eligibility	First day of third month following enactment (possibly 1 November 1965)	1 January 1965
Effective date of increase	"	1 April 1966
Applicable esti- mated point rise in Consumer Price Index	4.7 Per Cent**	1.2 Per Cent**
Estimated per- centage increase for annuity adjust- ment	4.5 Per Cent	None***
Effective date of subsequent increase	First day of third month after 3 per cent rise in Consumer Price Index has been sustained for three consecutive months over month used for last adjustment	1 April of year following year when Consumer Price Index has risen 3 per cent over 1964

*Includes Central Intelligence Agency employees and law enforcement officers of other Federal agencies.

**Rise computed from 1962 to possibly June, 1965, for Civil Service annuitants and from 1964 to 1965 for Central Intelligence Agency retirement annuitants.

***Minimum 3 per cent rise over base year 1964 required.

Should the pending legislation affecting Civil Service Retirement Act cost-of-living adjustments be enacted without equivalent amendment to the Central Intelligence Agency Retirement Act, the Central Intelligence Agency Retirement Act will be completely out of phase with the Civil Service Retirement Act and no longer paralleled as originally intended.

It is felt that the case made for the change to monthly Consumer Price Index indicators and for the acceleration of cost-of-living increase for Civil Service retirees and military personnel applies with equal force to Central Intelligence Agency Retirement System retirees. Unless the Central Intelligence Agency Retirement System is kept in phase, its retirees will not participate in the cost-of-living benefits granted their contemporaries under the Civil Service Retirement System. While the Central Intelligence Agency Retirement Act contains the identical principles enunciated in the Civil Service Retirement Act and Military retirement system, this principle will be rendered ineffective in practice unless changes in the mechanics of computing cost-of-living increases adopted by the 89th Congress for the benefit of Civil Service and military retirees are also enacted for Central Intelligence Agency Retirement System retirees.

**Consumer Price Index Point Rise and Estimated
Percentage of Annuity Adjustments**

Average Annual Consumer Price Index, 1962 - 105.4

Average Annual Consumer Price Index, 1964 - 108.1

Monthly Consumer Price Index, June, 1965 - 110.1

**Six-month average of Consumer Price Index
for calendar year, 1965 - 109.3**

Jan.	- 108.9
Feb.	- 108.9
Mar.	- 109.0
Apr.	- 109.3
May	- 109.6
June	- 110.1
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	655.8

655.8 divided by 6 = 109.3

Point rise, 1962 to June, 1965	110.1
	- 105.4
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	4.7

Point rise, 1964 to 1965	109.3
	- 108.1
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	1.2

Per cent of rise, 1962 to June, 1965 - 4.5

4.7 divided by 105.4 = 4.5

Per cent of rise, 1964 to 1965 - 1.1

1.2 divided by 108.1 = 1.1